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1974 Annual Report

BOMAC BATTEN

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DIRECTORS AND OFFICERS

DIRECTORS

Reginald A. Batten
George C. Gardiner
Douglas R. Keedwell, C.A.
Charles E. McNellen
Charles H. McNellen
J. Harold Mitchell
Douglas R. Steadman
Robert M. Sutherland, Q.C.

OFFICERS

Charles H. McNellen
Chairman of the Board

Charles E. McNellen
Vice-Chairman of the Board

George C. Gardiner
President

Douglas R. Keedwell, C.A.
Vice-President and Secretary

William J. Brown
Treasurer

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto

AUDITORS

Deloitte, Haskins & Sells

BANKERS

The Royal Bank of Canada

SOLICITORS

Fasken & Calvin

HEAD OFFICE

240 Richmond Street West, Toronto, Ontario, M5V 1V6

REPORT TO THE SHAREHOLDERS

On behalf of your Board of Directors, I am presenting the Company's Consolidated Balance Sheet as at December 31, 1974, Consolidated Statements of Earnings, Retained Earnings and Changes in Financial Position for the year together with the Auditors' Report to the Shareholders.

During 1974 consolidated sales totalled $12,966,399 reflecting a decline of $349,139 or 2.7% from 1973. While sales in our motion picture companies and in the offset departments of our printing plate divisions continued to improve, the decline in the demand for letterpress plates accelerated and accordingly letterpress sales were down a further 15% over 1973.

A consolidated loss from operations was experienced during 1974 of $56,635 before extraordinary items compared to earnings of $200,573 in 1973. After extraordinary items a profit of $51,870 was recorded for the year under review.

In the result, class A shares recorded a loss from operations of 07¢ and after extraordinary items, earnings per class A share amounted to 29¢. Common shares likewise recorded a loss from operations of 37¢ and a loss after extraordinary items of 01¢. This compares with earnings in 1973 per class A share of 71¢ and per common share of 51¢ both before and after extraordinary items.

While the decline in sales concerned the letterpress products of our Company, earnings from all operations were down reflecting the impact of reduced profit margins due to a highly competitive market and the spiralling costs of wages and materials.

Dividend payments were made quarterly at the annual rate of $6.00 on the preferred shares and 60¢ on the class A shares. Dividends of 30¢ were paid on the common shares with the dividend for the last quarter being omitted.

Capital expenditures amounted to $212,334 during the year, most of which was spent on our motion picture film operations and included the renovation of one of the Company's buildings to provide expanded facilities for film productions.

Throughout 1974, like most companies, we were exposed to extreme pressure on our costs due to substantial increases in film, chemicals, metals and generally all normal business costs plus the ever increasing wage adjustments necessary in an endeavour to keep pace with inflation. In view of the uncertain economy and the competitive nature of the market in which we are operating, it has not been possible to recover the increased costs in our selling prices. In addition, the market for letterpress printing plates has dramatically declined due to the conversion of many newspapers and national magazines to offset printing along with other newspapers converting their production to processes that do not require completed photo engravings. Since the letterpress printing plate segment of our business has contributed substantially to the earnings of the Company in the past, the accelerated shrinkage of this market, particularly as we have been heavily committed to the letterpress industry over the years in floor space, equipment and manpower has had a very adverse impact upon the Company's earnings. It has been very difficult to keep our facilities for letterpress plates in balance with the reduced demand in order to maintain reasonable profitability.

We are reviewing all cost elements of our operations to keep expenses to a minimum. With the decline in our letterpress plate business sufficient floor space to accommodate our administrative and accounting staff became available in our plant at 240 Richmond St. West, Toronto and consequently we have accepted an offer for the sale of the building at 224 Richmond St. West. This move will reduce our operating expenses and contribute to a more efficient operation.

With a very rigid expense control program, the reduction in interest rates and the further consolidation of our facilities wherever possible, we anticipate an improvement in our operating results. We also anticipate that upon return to a more viable economy, we will be in a position to benefit from renewed growth in business activity.

We sincerely appreciate the loyalty, cooperation and efficiency of our employees who contributed so much to the high standards of service and quality we were able to provide to our customers.

On behalf of the Board,

President

FIVE YEAR FINANCIAL SUMMARY

	1974	1973	1972	1971	1970
CURRENT POSITION					
Current assets	**$ 3,976,713**	$ 3,550,854	$ 4,218,852	$ 3,307,831	$ 2,831,669
Current liabilities	**$ 2,222,784**	$ 1,438,096	$ 2,617,386	$ 860,928	$ 955,470
Working capital	**$ 1,753,929**	$ 2,112,758	$ 1,601,465	$ 2,446,903	$ 1,876,199
Current ratio	**1.8**	2.4	1.6	3.8	2.9
PROPERTY, PLANT AND EQUIPMENT					
Investment and improvements in property, plant and equipment	**$ 8,883,735**	$ 9,124,934	$ 8,441,160	$ 5,614,523	$ 5,373,259
Accumulated depreciation	**$ 5,893,240**	$ 5,942,695	$ 5,783,488	$ 3,749,958	$ 3,564,610
Provision for depreciation	**$ 313,875**	$ 339,671	$ 308,534	$ 262,108	$ 261,507
Expenditures	**$ 212,334**	$ 897,804	$ 369,036	$ 319,071	$ 446,051
SHAREHOLDERS' EQUITY					
Preferred stock	**$ 303,500**	$ 306,300	$ 323,000	$ 323,500	$ 349,000
Class A and common stock	**$ 565,313**	$ 565,313	$ 565,313	$ 565,313	$ 565,313
Retained earnings	**$ 3,461,809**	$ 3,556,792	$ 3,560,272	$ 3,525,401	$ 3,194,493
Class A and common equity	**$ 4,027,122**	$ 4,112,105	$ 4,125,585	$ 4,090,714	$ 3,759,806
Per share	**$ 13.20**	$ 13.48	$ 13.52	$ 13.41	$ 12.32
SALES	**$12,966,399**	$13,315,538	$14,108,026	$10,496,130	$10,952,010
EARNINGS					
Earnings (loss) from operations	**$ (56,635)**	$ 200,573	$ 55,348	$ 415,060	$ 374,765
Per class A share	**$ (.07)**	$ .71	$ .23	$ 1.64	$ 1.50
Per common share	**$ (.37)**	$ .51	$ .03	$ 1.04	$ .90
Earnings after extraordinary items	**$ 51,870**	$ 200,341	$ 348,207	$ 420,460	$ 376,252
Per preferred share—available	**$ 17.09**	$ 65.40	$ 107.80	$ 129.97	$ 107.80
—distributed	**$ 6.00**	$ 6.00	$ 6.00	$ 6.00	$ 6.00
Per class A share	**$ .29**	$ .71	$ 1.19	$ 1.66	$ 1.51
Per common share	**$ (.01)**	$ .51	$ .99	$ 1.06	$ .91

BOMAC BATTEN LIMITED AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet as at December 31, 1974

(with 1973 figures for comparison)

ASSETS	**1974**	1973
CURRENT		
Cash	**$ 159,473**	$ 294,313
Accounts receivable	**2,996,491**	2,503,618
Marketable securities at cost which approximates market value	**9,750**	9,750
Mortgages receivable—current portion	**11,670**	8,485
Income taxes recoverable	**168,187**	126,466
Materials, supplies and work in process at the lower of cost and net realizable value	**579,713**	546,064
Prepaid expenses	**51,427**	62,155
	3,976,713	3,550,854
INVESTMENTS—at cost		
Mortgages due in 1978 and 1984	**497,870**	361,217
Cash surrender value of life insurance less loans	**64,996**	136,951
Other investments	**43,332**	43,332
	606,198	541,500
FIXED		
Plants and properties at cost	**8,883,735**	9,124,934
Less accumulated depreciation	**5,893,240**	5,942,695
	2,990,495	3,182,238
	$7,573,407	$7,274,593

Approved by the Board:
Geo. C. Gardiner, *Director*
R. M. Sutherland, *Director*

LIABILITIES AND SHAREHOLDERS' EQUITY	**1974**	1973
CURRENT		
Bank indebtedness (Note 2)	**$ 561,000**	$ 186,102
Accounts payable and accrued	**1,288,257**	982,580
Dividends payable	**23,527**	41,419
Long-term debt—current portion	**350,000**	227,994
	2,222,784	1,438,096
DEFERRED INCOME TAXES	—	38,090
LONG-TERM DEBT (Note 3)	**1,020,000**	1,370,000
SHAREHOLDERS' EQUITY (Note 4)		
Share capital		
Authorized		
10,000 6% cumulative redeemable preferred shares with a par value of $100 each and callable at $104		
200,000 60¢ cumulative participating Class A shares and 200,000 common shares, both without nominal or par value		
Issued and outstanding		
3,035 preferred shares (1973—3,063 shares)	**303,500**	306,300
126,500 Class A shares 178,500 common shares	**565,313**	565,313
	868,813	871,613
Retained earnings	**3,461,809**	3,556,792
	4,330,622	4,428,406
	$7,573,407	$7,274,593

See notes to consolidated financial statements

BOMAC BATTEN LIMITED AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings for the year ended December 31, 1974
(with 1973 figures for comparison)

	1974	1973
Balance, beginning of year	**$3,556,792**	$3,560,272
Add		
Earnings for the year	**51,870**	200,341
Discount on purchase of preferred shares	**872**	4,015
	3,609,535	3,764,628
Deduct		
Dividends on preferred shares	**18,276**	19,129
Dividends on Class A shares	**75,900**	75,900
Dividends on common shares	**53,550**	71,400
Tax of 15% on 1971 undistributed income of subsidiary	—	12,246
Adjustment to the goodwill on acquisition of Bomac Graphics Limited	—	29,160
	147,726	207,835
Balance, end of year	**$3,461,809**	$3,556,792

Consolidated Statement of Earnings for the year ended December 31, 1974
(with 1973 figures for comparison)

	1974	1973
Sales	**$12,966,399**	$13,315,538
Earnings from operations before taking into account the following items	**$ 392,189**	$ 832,303
Deduct		
Depreciation	**313,875**	339,671
Interest including long-term debt interest $159,222 (1973—$69,585)	**201,350**	161,114
	515,225	500,785
	(123,036)	331,518
Add		
Investment and other income	**66,401**	38,396
Earnings (loss) from operations before income taxes	**(56,635)**	369,914
Income taxes	—	169,340
Earnings (loss) from operations	**(56,635)**	200,573
Extraordinary items (Note 5)	**108,505**	(231)
Earnings for the year (Note 6)	**$ 51,870**	$ 200,341

See notes to consolidated financial statements

Consolidated Statement of Changes In Financial Position
for the year ended December 31, 1974
(with 1973 figures for comparison)

	1974	1973
SOURCE OF WORKING CAPITAL		
Earnings (loss) from operations	**$ (56,635)**	$ 200,573
Depreciation	**313,875**	339,671
Deferred income taxes	**(38,090)**	(2,110)
From operations	**219,150**	538,134
Gain on disposal of real estate	**113,984**	4,207
Expropriation claims	**5,478**	39,846
Adjustment of income taxes	**97,147**	—
Term bank loan	—	1,200,000
Mortgage payable	—	150,000
	435,759	1,932,187
APPLICATION OF WORKING CAPITAL		
Increase in plants and properties	**122,132**	864,237
Increase in investments	**64,698**	3,858
Dividends	**147,726**	166,429
Purchase of preferred shares	**1,928**	12,684
Decrease in long-term debt	**350,000**	287,994
Cost of relocating equipment	**30,104**	44,285
Provision for loss on bank guarantee	**78,000**	—
Tax of 15% on 1971 undistributed income of subsidiary	—	12,246
Adjustment to the goodwill on acquisition of Bomac Graphics Limited	—	29,160
	794,588	1,420,893
Net increase (decrease) in working capital for the year	**(358,829)**	511,294
Working capital beginning of year	**2,112,758**	1,601,465
Working capital end of year	**$1,753,929**	$2,112,758

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1974

1. PRINCIPLES OF CONSOLIDATION

The financial statements consolidate the accounts of the Company and its subsidiaries Filmpro Limited, Rabko Television Productions Co. Limited, Medallion Film Laboratories Limited, Arco Advertisers Revisions Limited, Fairbairn Studio Limited, Bomac Graphics Limited and Bomac Montreal Limited, all of which are wholly-owned.

2. BANK BORROWINGS

Bank borrowings are secured by assignment of accounts receivable and the shares of a subsidiary company.

3. LONG-TERM DEBT

	1974	1973
6½% mortgage payable in semi-annual instalments of $5,000 with balance due in 1975	$ 85,000	$ 95,000
6½% mortgage payable in quarterly instalments of $6,250 with balance due in 1981	175,000	200,000
Term bank loan bearing interest at 1½% above the bank's prime rate payable in monthly instalments of $20,000	960,000	1,140,000
8¾% mortgage due in 1983	150,000	150,000
Non-interest bearing notes, due in 1974	—	12,994
	1,370,000	1,597,994
Less current portion	350,000	227,994
	$1,020,000	$1,370,000

Payments required on long-term debt over the next five years total $1,170,000 payable as follows: 1975—$350,000; 1976—$265,000; 1977—$265,000; 1978—$265,000; 1979—$25,000.

4. PURCHASE OF PREFERRED SHARES

The Company has purchased 965 preferred shares for cancellation in accordance with the terms of issue including 28 shares purchased during the year. As a result of such purchases retained earnings in the amount of $96,500 equivalent to the par value of the shares cancelled are not available for distribution.

5. EXTRAORDINARY CREDITS (CHARGES)

	1974	1973
Gain on disposal of real estate (less income taxes of $8,600 in 1974)	$ 113,984	$ 4,207
Cost of relocating equipment (less income taxes of $36,200 in 1973)	(30,104)	(44,285)
Expropriation claims	5,478	39,846
Provision for loss on bank guarantee	(78,000)	—
Adjustment of income taxes	97,147	—
Net extraordinary credit (charge)	$ 108,505	$ (231)

The Company had guaranteed the bank loan of a supplier, which ceased operations in 1974. It is estimated that the Company will incur a loss of $78,000 in meeting its obligations under the guarantee.

As a result of income tax re-assessments received by the Company and its subsidiaries provisions for income taxes of $97,147 are no longer required.

6. EARNINGS PER SHARE

	Earnings (Loss) Before Extraordinary Items		Earnings (Loss) for Year	
	1974	1973	1974	1973
Earnings (loss) per class A share.......	$(.07)	$.71	$ .29	$.71
Earnings (loss) per common share.....	$(.37)	$.51	$(.01)	$.51

It is the policy of the Company to calculate earnings per class A and common share, after giving effect to the cumulative preferred dividend entitlement, on the following basis:

(a) An amount equal to the class A dividend entitlement for the period is allocated to the class A shares.

(b) An amount equal to the dividend paid on the common shares, to a limit of the class A dividend entitlement for the period, is allocated to the common shares.

(c) The remaining earnings (or the resultant deficiency in the event that the foregoing entitlements exceed the earnings for the period) are allocated on a share for share basis between the class A and common shares.

7. TAX LOSS POSITION

For income tax purposes, the Company and a subsidiary have tax losses of approximately $180,000, which may be carried forward until 1979. The income tax benefit which results from utilizing these losses will be recorded in the year it is realized.

8. SUBSEQUENT EVENT

Subsequent to the year end, a subsidiary company accepted an offer for the sale of real estate for $255,000, with a mortgage of $200,000. The net proceeds of the sale will exceed the book value of the property plus the cost of relocating the operations by an amount which is not presently determinable.

9. INFORMATION RE DIRECTORS AND OFFICERS

(a) During the year the Company had eight directors whose aggregate remuneration as directors amounted to $1,000 (1973—$1,000).

(b) During the year the Company had six officers and two past officers whose aggregate remuneration as officers amounted to $256,346 (1973—$259,334) of which $195,106 was paid by the Company and $61,240 by subsidiaries.

(c) During the year four officers and a past officer were also directors and a past officer was a former director.

AUDITORS' REPORT

To the Shareholders of

BOMAC BATTEN LIMITED:

We have examined the consolidated balance sheet of Bomac Batten Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Bomac Batten Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974, and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 11, 1975

DELOITTE, HASKINS & SELLS
Chartered Accountants

BOMAC BATTEN
LIMITED/LIMITÉE

TORONTO MONTREAL OTTAWA LONDON WINNIPEG HALIFAX